Selected questions & unofficial answers supplement indexed to content specification outlines

American Institute of Certified Public Accountants. Board of Examiners

UNIFORM CPA EXAMINATION
1998 EDITION

AICPA

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

SELECTED QUESTIONS & UNOFFICIAL ANSWERS SUPPLEMENT

Indexed to Content Specification Outlines

Business Law and Professional Responsibilities

Auditing

Accounting and Reporting—
Taxation, Managerial, and Governmental and Not-for-Profit Organizations

Financial Accounting and Reporting

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FOREWORD

The Uniform CPA Examination is prepared by the Board of Examiners of the American Institute of Certified Public Accountants and is used by the examining boards of all fifty states, the District of Columbia, Puerto Rico, Guam, and the U.S. Virgin Islands as a prerequisite for issuance of CPA certificates.

This supplement to the AICPA publication *Selected Questions and Unofficial Answers Indexed to Content Specification Outlines* contains selected questions and unofficial answers from past Uniform CPA Examinations. To assist candidates in studying for the Examination, the selected questions and unofficial answers have been indexed in accordance with the Content Specification Outlines.

All questions are identified by a boldface code that begins with **R** and the year (e.g., **96**). Each individual multiple-choice question is indexed according to the area and group it tests. Each other objective answer format (OOAF) question is indexed according to the area it tests and in certain cases to the group it tests. Each essay question or problem is indexed according to the area it tests and in certain cases to the group it tests.

Although the questions and unofficial answers may be used for many purposes, the principal reason for their publication is to help candidates prepare for and write the Uniform CPA Examination. Candidates are also encouraged to read the 14th Edition of *Information for Uniform CPA Examination Candidates*, which describes the content, grading and other administrative aspects of the Uniform CPA Examination.

The questions were selected by the staff of the AICPA Examinations Team on the basis of current value and pertinence. The unofficial answers were prepared by the staff of the Examination Team and reviewed by the Board of Examiners, but are not purported to be official positions of the American Institute of Certified Public Accountants.

Arleen R. Thomas, CPA, *Vice President, Professional Standards*
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April 1998

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MULTIPLE-CHOICE ITEMS—SELECTED QUESTIONS

Business Law and Professional Responsibilities

II. Business Organizations

D. Estates and Trusts

R97#6. Which of the following parties is necessary to create an express trust?

	A remainderman	*A successor trustee*
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

R97#7. When a trust instrument is silent regarding a trustee's powers, which of the following implied powers does a trustee generally have?

	The power to make distributions of principal to income beneficiaries	*The power to lease trust property to third parties*
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

R97#8. Which of the following assets generally will be distributed outside of the probate estate and regardless of intestacy laws, provided the estate is **not** the named beneficiary?

	Totten trusts	*Proceeds from insurance policies*
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

R97#9. Generally, which of the following parties would have the first priority to receive the estate of a person who dies without a will?

A. The state.
B. A child of the deceased.
C. A parent of the deceased.
D. A sibling of the deceased.

III. Contracts

C. Third Party Assignments

R97#10. Which of the following statements is(are) correct regarding a valid assignment?

I. An assignment of an interest in a sum of money must be in writing and must be supported by legally sufficient consideration.
II. An assignment of an insurance policy must be made to another party having an insurable interest in the property.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

D. Discharge, Breach, and Remedies

R97#11. Which of the following statements is correct regarding the effect of the expiration of the period of the statute of limitations on a contract?

A. Once the period of the statute of limitations has expired, the contract is void.
B. The expiration of the period of the statute of limitations extinguishes the contract's underlying obligation.
C. A cause of action barred by the statute of limitations may **not** be revived.
D. The running of the statute of limitations bars access to judicial remedies.

IV. Debtor-Creditor Relationships

C. Bankruptcy

R97#12. Under the liquidation provisions of Chapter 7 of the federal Bankruptcy Code, a debtor will be denied a discharge in bankruptcy if the debtor

A. Fails to list a creditor.
B. Owes alimony and support payments.
C. Cannot pay administration expenses.
D. Refuses to satisfactorily explain a loss of assets.

VI. Uniform Commercial Code

B. Sales

R97#13. Under the Sales Article of the UCC, most goods sold by merchants are covered by certain warranties. An example of an express warranty would be a warranty of

A. Usage of trade.
B. Fitness for a particular purpose.
C. Merchantability.
D. Conformity of goods to sample.

R97#14. Under the Sales Article of the UCC, unless a contract provides otherwise, before title to goods can pass from a seller to a buyer, the goods must be

A. Tendered to the buyer.
B. Identified to the contract.
C. Accepted by the buyer.
D. Paid for.

D. Documents of Title

R97#15. Under the Documents of Title Article of the UCC, a negotiable document of title is "duly negotiated" when it is negotiated to

A. Any holder by indorsement.
B. Any holder by delivery.
C. A holder who takes the document in payment of a money obligation.
D. A holder who takes the document for value, in good faith, and without notice of any defense or claim to it.

MULTIPLE-CHOICE ITEMS—UNOFFICIAL ANSWERS

Business Law and Professional Responsibilities

II. Business Organizations

D. Estates and Trusts

R97#6 D

R97#7 C

R97#8 A

R97#9 B

III. Contracts

C. Third Party Assignments

R97#10 D

D. Discharge, Breach, and Remedies

R97#11 D

IV. Debtor-Creditor Relationships

C. Bankruptcy

R97#12 D

VI. Uniform Commercial Code

B. Sales

R97#13 D

R97#14 B

D. Documents of Title

R97#15 D

Business Law and Professional Responsibilities

II. Business Organizations

B. Partnership, Joint Ventures, and Other Unincorporated Associations

R97#1.

Question Number 1 consists of 5 items. Select the **best** answer for each item. Use a No. 2 pencil to blacken the appropriate ovals on the *Objective Answer Sheet* to indicate your answers. **Answer all items.** Your grade will be based on the total number of correct answers.

Items 1 through 5 are based on the following:

On March 1, 1995, Grove, Plane, and Range formed Techno Associates, a general partnership. They made capital contributions to the partnership as follows: Grove contributed $125,000; Plane contributed $250,000; and Range contributed $500,000. They prepared and executed a written partnership agreement that provided that profits would be shared equally, that the partnership would last for five years, and that the partnership use a calendar year for accounting purposes. There was no provision as to how losses would be allocated nor was there any provision regarding the continued use of the partnership name in the event of dissolution.

- On April 1, 1996, Range assigned Range's partnership interest to Blank. Blank notified Grove and Plane that Blank wanted to participate in the partnership business and vote on partnership issues.
- On June 10, 1996, a judgment was entered against Techno in a suit for breach of contract.
- On December 31, 1996, Grove resigned from the partnership.
- During the year-end closing, it was established that Techno had incurred an operating loss in 1996 as a result of the judgment. It was also established that Techno, being unable to pay its debts as they became due, was insolvent.
- On May 1, 1997, Techno filed for bankruptcy.

The Uniform Partnership Act applies.

Required:

For **Items 1 through 3**, select the correct answer from List I and blacken the corresponding oval on the *Objective Answer Sheet*. An answer may be selected once, more than once, or not at all.

List I
Ⓐ No personal liability.
Ⓑ Liability limited to the amount contributed to the partnership.
Ⓒ Liability limited to the amount in the capital account.
Ⓓ Full personal liability for up to one-third of the total amount of the partnership debt.
Ⓔ Full personal liability for up to the total amount of the partnership debt.

1. What would be Range's liability for Techno's 1996 operating loss?
2. What would be Blank's liability for Techno's 1996 operating loss?
3. What would be Grove's liability for Techno's 1996 operating loss?

For **Item 4**, select the correct answer from List II and blacken the corresponding oval on the *Objective Answer Sheet.*

List II
Ⓐ Blank and Plane.
Ⓑ Plane and Range.
Ⓒ Blank, Plane, and Grove.
Ⓓ Grove, Plane, and Range.
Ⓔ Blank, Grove, Plane, and Range.

4. As of January 1, 1997, who were the partners in Techno?

For **Item 5**, select the correct answer from List III and blacken the corresponding oval on the *Objective Answer Sheet.*

List III
Ⓐ Dissolved.
Ⓑ Liquidated.
Ⓒ Terminated.

5. On May 1, 1997, what was the status of Techno?

C. Corporations

R97#2.

Items 1 through 5 are based on the following:

Mill, Web, and Trent own all the outstanding and issued voting common stock of Sack Corp. Mill owns 40%, Web owns 30%, and Trent owns 30%. They also executed a written stockholders agreement in which Mill, Web, and Trent agreed to vote for each other as directors of Sack.

At the initial meeting of the incorporators, Mill, Web, and Trent were elected to the board of directors together with three non-stockholders. At the initial board of directors meeting, Mill, Web, and Trent were appointed as officers of the corporation and given three-year employment contracts.

During its first year of operations, Sack began experiencing financial difficulties, which caused disagreements among Mill, Web, and Trent as to how the business should be operated.

At the next annual stockholders' meeting, Mill was not elected to the board of directors. The new board fired Mill in a management reorganization despite there being two years left on the employment contract. The board, reasonably relying on assurances from Web and Trent regarding financial statements Web and Trent knew to be materially misstated, declared and paid a dividend that caused Sack to become insolvent.

Required:

For **Items 1 through 5**, select the correct answer from List I and blacken the corresponding oval on the *Objective Answer Sheet*. An answer may be selected once, more than once, or not at all.

List I	
Ⓐ	Mill only.
Ⓑ	Web only.
Ⓒ	Trent only.
Ⓓ	Mill and Web only.
Ⓔ	Mill and Trent only.
Ⓕ	Web and Trent only.
Ⓖ	Mill, Web, and Trent.
Ⓗ	Neither Mill, Web, nor Trent.
Ⓘ	All directors.
Ⓙ	Sack Corp.

1. According to the stockholders' agreement, what party(ies) must be elected as director(s) of Sack?
2. According to the stockholders' agreement, what party(ies) must be appointed as officer(s) of the corporation?
3. What party(ies) is(are) liable to Mill for Mill's firing?
4. What party(ies) must return the dividend to the corporation?
5. What party(ies) would be liable for declaring the illegal dividend?

VII. Property

A. Real Property Including Insurance

R97#3.

Items 1 through 5 are based on the following:

Wolf purchased a factory building for $800,000. At the time of the purchase, Wolf obtained a fire insurance policy with a face value of $400,000 from Acme Fire Insurance Co. At the same time, Wolf obtained another fire insurance policy with a face value of $200,000 from Prevent Fire Insurance Corp. Each policy contained a standard 80% coinsurance clause and a pro rata clause. Two years later, when the building had a fair market value of $1,000,000, a fire caused $600,000 damage.

Required:

For Items 1 through 5, select the correct answer from List I and blacken the corresponding oval on the *Objective Answer Sheet*. An answer may be selected once, more than once, or not at all.

List I			
Ⓐ	$0	Ⓗ	$450,000
Ⓑ	$150,000	Ⓘ	$480,000
Ⓒ	$160,000	Ⓙ	$600,000
Ⓓ	$200,000	Ⓚ	$640,000
Ⓔ	$300,000	Ⓛ	$750,000
Ⓕ	$360,000	Ⓜ	$800,000
Ⓖ	$400,000		

1. What dollar amount of fire insurance coverage should Wolf have obtained when purchasing the building to avoid being considered a coinsurer?
2. What dollar amount of fire insurance coverage should Wolf have at the time of the fire to avoid being considered a coinsurer?
3. What dollar amount should Wolf recover from Acme and Prevent under the fire insurance policies?
4. What dollar amount should Wolf recover under the Acme fire insurance policy?
5. What dollar amount should Wolf recover under the Prevent fire insurance policy?

OTHER OBJECTIVE ANSWER FORMATS—UNOFFICIAL ANSWERS

Business Law and Professional Responsibilities

II. Business Organizations

B. Partnership, Joint Ventures, and Other Unincorporated Associations

R97#1.

ANSWER 1

List I (Select one)

1	A	B	C	D	●
2	●	B	C	D	E
3	A	B	C	D	●

List II (Select one)

4	A	●	C	D	E

List III (Select one)

5	●	B	C

C. Corporations

R97#2.

ANSWER 2

List I (Select one)

1	A	B	C	D	E	F	●	H	I	J
2	A	B	C	D	E	F	G	●	I	J
3	A	B	C	D	E	F	G	H	I	●
4	A	B	C	D	E	●	G	H	I	J
5	A	B	C	D	E	●	G	H	I	J

VII. Property

A. Real Property Including Insurance

R97#3.

ANSWER 3

List I (Select one)

1	A	B	C	D	E	F	G	H	I	J	●	L	M
2	A	B	C	D	E	F	G	H	I	J	K	L	●
3	A	B	C	D	E	F	G	●	I	J	K	L	M
4	A	B	C	D	●	F	G	H	I	J	K	L	M
5	A	●	C	D	E	F	G	H	I	J	K	L	M

SUGGESTED REFERENCES

Business Law & Professional Responsibilities

AICPA, *Professional Standards; Code of Professional Conduct; U.S. Auditing Standards; Consulting Services; Personal Financial Planning.*

Clarkson, Miller, Jentz, & Cross, *West's Business Law*, 6th ed. (West, 1995).

Federal Bankruptcy Code.

Mann & Roberts, *Smith & Roberson's Business Law*, 10th ed. (West, 1997).

Metzger, Mallor, Barnes, Bowers, & Phillips, *Business Law and the Regulatory Environment*, 8th ed. (Irwin, 1992).

Schantz & Jackson, *Business Law*, 2d ed. (West, 1987).

Uniform Commercial Code—Sales Article; Negotiable Instruments Article; Documents of Title Article; Secured Transactions Article.

MULTIPLE-CHOICE ITEMS—SELECTED QUESTIONS

Auditing

I. Plan the Engagement, Evaluate the Prospective Client and Engagement, Decide Whether to Accept or Continue the Client and the Engagement, and Enter into an Agreement with the Client

H. Consider Preliminary Engagement Materiality

R97#10. Which of the following would an auditor most likely use in determining the auditor's preliminary judgment about materiality?

A. The results of the initial assessment of control risk.
B. The anticipated sample size for planned substantive tests.
C. The entity's financial statements of the prior year.
D. The assertions that are embodied in the financial statements.

R97#11. Holding other planning considerations equal, a decrease in the amount of misstatements in a class of transactions that an auditor could tolerate most likely would cause the auditor to

A. Apply the planned substantive tests prior to the balance sheet date.
B. Perform the planned auditing procedures closer to the balance sheet date.
C. Increase the assessed level of control risk for relevant financial statement assertions.
D. Decrease the extent of auditing procedures to be applied to the class of transactions.

I. Assess Inherent Risk and Risk of Misstatements

R97#12. Which of the following characteristics most likely would heighten an auditor's concern about the risk of material misstatements in an entity's financial statements?

A. The entity's industry is experiencing declining customer demand.
B. Employees who handle cash receipts are **not** bonded.
C. Bank reconciliations usually include in-transit deposits.
D. Equipment is often sold at a loss before being fully depreciated.

R97#13. Which of the following information discovered during an audit most likely would raise a question concerning possible illegal acts?

A. Related party transactions, although properly disclosed, were pervasive during the year.
B. The entity prepared several large checks payable to cash during the year.
C. Material internal control weaknesses previously reported to management were **not** corrected.
D. The entity was a campaign contributor to several local political candidates during the year.

J. Consider Internal Control

R97#14. Which of the following fraudulent activities most likely could be perpetrated due to the lack of effective internal controls in the revenue cycle?

A. Fictitious transactions may be recorded that cause an understatement of revenues and an overstatement of receivables.
B. Claims received from customers for goods returned may be intentionally recorded in other customers' accounts.
C. Authorization of credit memos by personnel who receive cash may permit the misappropriation of cash.
D. The failure to prepare shipping documents may cause an overstatement of inventory balances.

II. Obtain and Document Information to Form a Basis for Conclusions

A. Perform Planned Procedures Including Planned Applications of Audit Sampling

R97#15. Which of the following procedures would an auditor most likely perform to test controls relating to management's assertion about the completeness of cash receipts for cash sales at a retail outlet?

A. Observe the consistency of the employees' use of cash registers and tapes.
B. Inquire about employees' access to recorded but undeposited cash.
C. Trace the deposits in the cash receipts journal to the cash balance in the general ledger.
D. Compare the cash balance in the general ledger with the bank confirmation request.

R97#16. In determining the number of documents to select for a test to obtain assurance that all sales returns have been properly authorized, an auditor should consider the tolerable rate of deviation from the control activity. The auditor should also consider the

I. Likely rate of deviations.
II. Allowable risk of assessing control risk too high.

A. I only.
B. II only.
C. Both I and II.
D. Either I or II.

R97#17. Which of the following comparisons would an auditor most likely make in evaluating an entity's costs and expenses?

A. The current year's accounts receivable with the prior year's accounts receivable.
B. The current year's payroll expense with the prior year's payroll expense.
C. The budgeted current year's sales with the prior year's sales.
D. The budgeted current year's warranty expense with the current year's contingent liabilities.

R97#18. To reduce the risks associated with accepting fax responses to requests for confirmations of accounts receivable, an auditor most likely would

A. Examine the shipping documents that provide evidence for the existence assertion.
B. Verify the sources and contents of the faxes in telephone calls to the senders.
C. Consider the faxes to be nonresponses and evaluate them as unadjusted differences.
D. Inspect the faxes for forgeries or alterations and consider them to be acceptable if none are noted.

R97#19. In auditing accounts receivable, the negative form of confirmation request most likely would be used when

A. The total recorded amount of accounts receivable is immaterial to the financial statements taken as a whole.
B. Response rates in prior years to properly designed positive confirmation requests were inadequate.
C. Recipients are likely to return positive confirmation requests without verifying the accuracy of the information.
D. The combined assessed level of inherent risk and control risk relative to accounts receivable is low.

MULTIPLE-CHOICE ITEMS—UNOFFICIAL ANSWERS

Auditing

I. Plan the Engagement, Evaluate the Prospective Client and Engagement, Decide Whether to Accept or Continue the Client and the Engagement, and Enter into an Agreement with the Client

H. Consider Preliminary Engagement Materiality

R97#10 C

R97#11 B

I. Assess Inherent Risk and Risk of Misstatements

R97#12 A

R97#13 B

J. Consider Internal Control

R97#14 C

II. Obtain and Document Information to Form a Basis for Conclusions

A. Perform Planned Procedures Including Planned Applications of Audit Sampling

R97#15 A

R97#16 A

R97#17 B

R97#18 B

R97#19 D

Auditing

II. Obtain and Document Information to Form a Basis for Conclusions

A. Perform Planned Procedures Including Planned Applications of Audit Sampling

R97#2.

Question Number 2 consists of 2 parts. Part **A.** consists of 10 items and Part **B.** consists of 8 items. Select the **best** answer for each item. Use a No. 2 pencil to blacken the appropriate ovals on the *Objective Answer Sheet* to indicate your answers. **Answer all items.** Your grade will be based on the total number of correct answers.

Required:

A. Items 1 through 10 represent tick marks (symbols) that indicate procedures performed or comments documented in auditing the **Long-term debt** account of American Manufacturers, Inc. Select, from the list of procedures/comments below, the procedure/comment that the auditor most likely performed/documented at each point of the audit where a tick mark was made on the working papers. Select only one procedure/comment for each item. A procedure/comment may be selected once or not at all. Assume that the working papers foot and crossfoot.

American Manufacturers, Inc.
Long-Term Debt
October 31, 1997

	Lender	Interest rate	Payment terms	Collateral	Balance 10/31/96	Current year borrowings	Current year reductions	Balance 10/31/97	Interest paid to	Accrued interest payable 10/31/97	Comments
▲	First National Bank	10%	Interest only on last day of each quarter; principal due in full on 9/30/99.	Manufacturing equipment	500,000 ■	200,000 ◆ 3/31/97	(100,000) ✪ 6/30/97	600,000 ✓	9/30/97	5,000 ◩	First National confirms that interest payments are current and agrees with account balance.
▲	Second State Bank	9%	$10,000 principal plus interest due on the 1st of each month; due in full on 1/1/00.	First mortgage on production facilities	380,000 ■	0	(110,000) ✚	270,000 ✓★	9/30/97	2,025 ◩	Monthly payment for $12,025 was mailed on 11/3/97; Second State agrees with account balance.
▲	Third Savings & Loan	12%	$5,000 principal plus interest due on the 15th of each month; due in full on 10/15/99.	Second mortgage on production facilities	180,000 ■	0	(60,000)	120,000 ✱★	10/15/97	600	Third Savings & Loan claims 10/15/97 payment wasn't received as of 11/5/97; adjusting entry proposed to increase balance $5,000 and increase accrued interest payable.
▲	A. Clark, majority stockholder	0%	Due in full 10/31/99.	Unsecured	700,000 ■	0	(200,000) 10/28/97	500,000 ✓		0	Borrowed aïdditional $200,000 from Clark on 11/5/97; need to investigate reborrowing just after year end and consider imputed interest on 0% stockholder loan.
					1,760,000	200,000	(470,000)	1,490,000 ●		7,625 ●	

List of procedures/comments—Long-Term Debt	
Ⓐ Confirmed, without exception.	Ⓖ Agreed to canceled checks and lender's monthly statements.
Ⓑ Confirmed, with exception.	Ⓗ Agreed to canceled check and board of directors' authorization.
Ⓒ Traced amount to prior year's working papers.	Ⓘ Agreed interest rate, terms, and collateral to note & loan agreement.
Ⓓ Traced amount to current year's trial balance and general ledger.	Ⓙ Agreed to loan agreement, validated bank deposit ticket, and board of directors' authorization.
Ⓔ Does not recompute correctly.	Ⓚ Reclassification entry proposed for current portion of long-term debt.
Ⓕ Tested reasonableness of calculations.	

Items to be Answered			
1.	▲	6.	✓
2.	■	7.	★
3.	◆	8.	✱
4.	✪	9.	●
5.	✚	10.	◩

R97#2. (continued)

Items 11 through 18 represent tick marks (symbols) that indicate procedures performed or comments documented in auditing the **Property, plant, and equipment** and **Accumulated depreciation** accounts of American Manufacturers, Inc. During the year under audit, American Manufacturers purchased new computers directly from wholesalers and constructed an addition to one of its buildings. The company's employees also refurbished the fixtures of several older buildings. Select, from the list of procedures/comments below, the procedure/comment that the auditor most likely performed/documented at each point of the audit where a tick mark was made on the working papers. Select only one procedure/comment for each item. A procedure/comment may be selected once or not at all. Assume that the working papers foot and crossfoot.

American Manufacturers, Inc.
Property, Plant, and Equipment and Accumulated Depreciation
October 31, 1997

	Property, Plant, and Equipment					Depreciation		Accumulated Depreciation			
Account	Balance 10/31/96	Additions	Disposals	Other	Balance 10/31/97	Rate	Method	Balance 10/31/96	Provision	Disposal	Balance 10/31/97
Land	650,000 ➤	70,000 ↕	0	0	720,000 ➜						
Buildings	3,270,000 ➤	230,000 √	0	(30,000) ⊗	3,470,000 ➜	5%	S/L	1,144,500 ➤	168,500 ┘	0	1,313,000 ➜
Equipment	1,750,000 ➤	90,000 ∠	(12,000) ↔	0	1,828,000 ➜	10%	S/L	700,000 ➤	179,500 ┘	(12,000)	867,500 ➜
Fixtures	850,000 ➤	200,000 √	0	30,000 ⊗	1,080,000 ➜	15%	S/L	510,000 ➤	144,750 ┘	0	654,750 ➜
	6,520,000	590,000	(12,000)	0	7,098,000			2,354,500	492,750 ➜	(12,000)	2,835,250

Items to be Answered

11. ➤
12. ↕
13. √
14. ∠
15. ↔
16. ⊗
17. ➜
18. ┘

List of procedures/comments—Property, Plant, and Equipment and Accumulated Depreciation

- (A) Does not recompute correctly.
- (B) Tested reasonableness of calculation.
- (C) Traced amount to current year's trial balance and general ledger.
- (D) Reclassification entry for fixtures erroneously recorded as buildings.
- (E) Reclassification entry for buildings erroneously recorded as fixtures.
- (F) Traced amount to prior year's working papers.
- (G) Sold six fully-depreciated computers to employees; no audit procedures necessary.
- (H) Confirmed, with exception.
- (I) Confirmed, without exception.
- (J) Examined supporting vendors' invoices, canceled checks, asset subsidiary ledger and board of directors' minutes of meetings authorizing transactions.
- (K) Examined supporting work orders and engineers' reports, canceled checks, asset subsidiary ledger, and board of directors' minutes of meetings authorizing transactions.
- (L) Examined supporting deed and purchase contract, canceled checks, asset subsidiary ledger, and board of directors' minutes of meetings authorizing transactions.

Auditing

II. Obtain and Document Information to Form a Basis for Conclusions

A. Perform Planned Procedures Including Planned Applications of Audit Sampling

R97#2.

ANSWER 2

A.		Select one
1	▲	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ ● Ⓙ Ⓚ
2	■	Ⓐ Ⓑ ● Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ
3	◆	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ ● Ⓚ
4	✪	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ ● Ⓘ Ⓙ Ⓚ
5	✚	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ ● Ⓗ Ⓘ Ⓙ Ⓚ
6	✓	● Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ
7	★	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ ●
8	✱	Ⓐ ● Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ
9	●	Ⓐ Ⓑ Ⓒ ● Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ
10	◩	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ ● Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ

B.		Select one
11	➤	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ ● Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ Ⓛ
12	↕	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ ●
13	√	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ ● Ⓛ
14	∠	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ ● Ⓚ Ⓛ
15	↔	Ⓐ Ⓑ Ⓒ Ⓓ Ⓔ Ⓕ ● Ⓗ Ⓘ Ⓙ Ⓚ Ⓛ
16	⊗	Ⓐ Ⓑ Ⓒ ● Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ Ⓛ
17	→	Ⓐ Ⓑ ● Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ Ⓛ
18	↲	Ⓐ ● Ⓒ Ⓓ Ⓔ Ⓕ Ⓖ Ⓗ Ⓘ Ⓙ Ⓚ Ⓛ

ESSAYS—SELECTED QUESTIONS

Auditing

I. Plan the Engagement, Evaluate the Prospective Client and Engagement, Decide Whether to Accept or Continue the Client and the Engagement, and Enter into an Agreement with the Client

A. Determine Nature and Scope of Engagement

R97#2. On September 3, 1997, Larkin, CPA, was engaged to audit the financial statements of Modern Minerals Co. for the year ended October 31, 1997. Modern purchases precious metals at wholesale prices and resells them to craft clubs at retail. Modern is a new client whose common stock was first offered to the public in 1994. Modern received an unqualified opinion on its financial statements in each of the prior three years but changed auditors after each engagement. In accepting the engagement, Larkin completed all the appropriate client-acceptance procedures. Larkin instructed Johnson, an assistant on the engagement, to draft a planning checklist that would assist Larkin in preparing the audit staff for the field work that is scheduled to begin on October 17, 1997. On October 5, 1997, Johnson prepared the planning checklist below.

Planning checklist for the Modern Minerals (MM) engagement:

I. Understanding the assignment

In planning the audit, have engagement personnel considered:

- MM's accounting policies and procedures?
- Financial statement items likely to require adjustment?
- The nature of the reports expected to be rendered?
- The effects of accounting and auditing pronouncements, particularly new ones?
- The method of sampling likely to be approved by MM?
- The extent of involvement of other independent auditors or internal auditors?

In planning the audit, have engagement personnel discussed:

- The general scope and timing of the audit work with MM's management, board of directors, or audit committee?
- The expected level of detection risk with MM's management, board of directors, or audit committee?

II. Assigning personnel to the engagement

Has a time budget for the engagement been prepared to determine the staffing requirements and to schedule the field work and has it been approved by:

- The engagement partner?
- MM's controller and audit committee?

Has the engagement staffing schedule been approved by the engagement partner?

Have the following factors been considered:

- Engagement size and complexity?
- Personnel available?
- Timing of the work to be performed?
- Continuity and periodic rotation of personnel?
- Opportunities for on-the-job training?

III. Knowledge of the entity's business

Has an overall understanding of MM's operations been obtained by reviewing:

- Minutes of stockholders' and board of directors' meetings?
- Filings with regulatory agencies?
- Recent management letters?
- The Codification of Statements on Auditing Standards?

Have engagement personnel obtained knowledge of MM's organization and operating characteristics?

Have the methods that MM uses to process accounting information been considered?

Have the extent, complexity, and organizational structure of MM's computer activities and their effects on the audit been considered and evaluated?

IV. Assessing auditability

Has the adequacy of the accounting records been assessed for proper:

- Descriptions of transactions to permit the appropriate financial statement classification?
- Information about transactions to permit the recording of appropriate monetary amounts?
- Recording of transactions in the appropriate accounting period?

Have the following factors regarding the integrity of management been considered in planning the audit:

- Responses to previous inquiries of local attorneys, bankers, and other business leaders regarding MM's standing in the community?
- MM's credit rating?

Have inquiries of a sample of MM's customers regarding MM's credit-granting policies been made?

V. Engagement letter

Have the following items been addressed in the engagement letter:

- Name of the entity and its year end?
- Statements to be audited?
- Scope of services?
- Type of report to be rendered?
- Larkin's responsibilities for detecting fraud?
- Larkin's responsibility for assuring that MM meets its SEC filing deadlines?
- MM's obligations to prepare statements and schedules?
- Requirement that Larkin read all printed material in which the auditor's report appears?
- Larkin's responsibility for the preparation or review of tax returns?
- Provision for MM's acceptance signature and date?

Have the following items been considered for inclusion in the engagement letter:

- Name of MM's personnel to be contacted during the engagement?
- Description of particular audit procedure(s) requested by MM?
- Cooperation with the internal auditors?
- Date when Larkin's detailed audit program will be available for MM's review?
- List of certain services specifically excluded?
- MM's acknowledgment of its responsibility for the financial statements?
- A statement that MM will be informed of any reportable conditions that come to Larkin's attention?

VI. Assessing risk

Have inherent risk and control risk been assessed to determine how much detection risk can be accepted?

Has consideration been given to permitting MM's internal auditors to make judgments about the assessment of inherent risk and evaluations of significant accounting estimates?

If control risk is assessed at below the maximum level for some or all financial statement assertions, has that conclusion been documented?

If control risk is assessed at the maximum level for some or all assertions:

- Have specific internal control activities that are likely to prevent or detect material misstatements in those assertions been identified?
- Have tests of controls to evaluate the design and operation of such activities been performed?
- If a further reduction in the assessed level of control risk is desired for some assertions, have additional tests of relevant controls been performed?
- Has the basis for the conclusion that control risk is assessed at the maximum level for some or all assertions been documented?

VII. Illegal acts

Have the following matters been considered in assessing the risk that MM has not complied with laws and regulations that have a direct and material effect on the financial statements:

- MM's policy relative to the prevention of illegal acts?
- MM's understanding of the requirements of laws and regulations pertinent to its business?
- Internal control components designed to give MM reasonable assurance that MM complies with those laws and regulations?

VIII. Analytical procedures

In planning the audit, have analytical procedures been used that focus on:

- Enhancing an understanding of MM's business and the transactions and events of the year under audit?
- Identifying areas that may represent specific risks relevant to the audit?
- Achieving particular audit objectives?
- Evaluating the overall financial statement presentation?

IX. Audit strategies and the audit program

Has the audit program been developed for the engagement and approved by the engagement partner?

Required:

A. Identify the inappropriate comments and misconceptions that exist in Johnson's planning checklist and describe why each is inappropriate or a misconception.

B. Describe the additional considerations and comments that should be addressed in Johnson's planning checklist.

ESSAYS—UNOFFICIAL ANSWERS

Auditing

I. Plan the Engagement, Evaluate the Prospective Client and Engagement, Decide Whether to Accept or Continue the Client and the Engagement, and Enter into an Agreement with the Client

A. Determine Nature and Scope of Engagement

R97#2.

A. In section I, Understanding the assignment, Johnson's planning checklist includes a question implying that the method of sampling used by Larkin, the auditor, should be approved by MM, the client. Evaluating the competence of evidential matter is solely a matter of the auditor's professional judgment. Therefore, the choice of statistical or nonstatistical sampling in achieving audit objectives will be controlled by Larkin without MM's approval.

Also, in section I, the checklist implies that Larkin's engagement personnel will discuss the expected level of detection risk with MM's management, board of directors, or audit committee. It is usually inappropriate for an auditor to discuss this with a client, especially with management, because the level of detection risk is a matter of the auditor's professional judgment.

In section II, Assigning personnel to the engagement, the checklist includes a question concerning MM's approval of Larkin's time budget. The time budget may be discussed with the audit committee and the controller, but its approval is solely within the CPA firm and it should not be subject to approval by the client because the CPA firm controls the nature, timing, and extent of the work to be done.

In section III, Knowledge of the entity's business, Johnson has included the Codification of Statements on Auditing Standards (SASs) as a source of understanding MM's operations. Although the SASs are interpretations of the generally accepted auditing standards, they do not provide an auditor with specific knowledge about an entity or a specific industry.

In section IV, Assessing auditability, the inquiries of MM's customers about MM's credit-granting policies are inappropriate. This is not the type of information ordinarily obtained from a client's customers.

In section V, Engagement letter, the reference to Larkin's responsibility for assuring that MM meets its SEC filing deadlines is inappropriate because it is the client's responsibility to meet its SEC filing deadlines.

Also, in section V, Johnson's checklist implies that Larkin's detailed audit program will be made available for MM's review. The auditor's audit program and the corresponding working papers document the work done during the engagement and are not ordinarily shared with the client. The client neither reviews the audit program before nor after the procedures are performed.

In section VI, Assessing risk, Johnson mistakenly allows the internal auditors to make judgments about the assessment of inherent risk and evaluations of significant accounting estimates. These matters are solely within the exercise of the independent auditor's professional judgment and may not be delegated to the internal auditors.

Also, in section VI, the concept of control risk assessed at the maximum level is confused with control risk assessed at below the maximum. If control risk is assessed at the maximum level for some or all of the assertions, the auditor need only document that conclusion. If control risk is assessed at below the maximum, internal control activities must be identified and tested to evaluate the design and operation of the activities, and the basis for that conclusion must be documented.

Finally, in section VIII, some of Johnson's questions have missed the purpose of analytical procedures in the planning phase of an audit. Achieving particular audit objectives and evaluating the overall financial statement presentation are not the purposes of analytical procedures performed in the planning stage of the audit.

B. In preparing the planning checklist, Johnson has omitted any questions about the need to consider engaging specialists in determining the value of MM's inventory of precious metals. Closely associated with this need is the consideration of whether special expertise may be required by Larkin's staff members who are assigned to the engagement. This consideration also has not been addressed in the checklist.

Johnson has not included any questions regarding the method of audit sampling to be used on the engagement.

Johnson has not prepared any questions addressing the coordination and cooperation of MM's employees who most likely will be assisting Larkin's staff members in data preparation and in obtaining documents and the time required for MM's employees to perform these functions.

Johnson's checklist omitted any reference to reviewing the predecessor auditor's working papers. Johnson also omitted any reference to Larkin's use of the predecessor auditor's responses to Larkin's inquiries.

Johnson should have included questions about the review of the prior year's financial statements and the current year's interim financial statements to assure that Larkin has sufficient knowledge of MM's business.

To obtain an understanding of MM's business, Johnson should have included questions about the engagement personnel's familiarity with economic conditions, government regulations, and specialized accounting practices.

Johnson has omitted any reference to obtaining an understanding of internal control sufficient to plan the audit, including the control environment, risk assessment, control activities, information and communication, such as MM's computer system, and monitoring.

Johnson's section of the checklist that covers engagement letter issues should have addressed the need for determining fees and any arrangements agreed-upon for the frequency of billing.

Although audit risk has been considered in preparing the checklist, materiality has not. Johnson has not prepared questions concerning whether a preliminary judgment about the dollar amount of misstatement that would be material to MM's financial statements has been made.

Johnson has substantially omitted all questions concerning assessing the risk that errors and irregularities/fraud may be present in MM's financial statements. Management characteristics such as unduly aggressive financial reporting and engagement characteristics such as the existence of related party transactions should be addressed. Questions also should be prepared concerning management's predisposition to distort financial statements and change auditors annually, lack of control over computer processing, and indications of constant crisis conditions in operating and accounting areas.

Finally, Johnson has omitted any questions that could assist Larkin in assessing the competence and objectivity of MM's internal auditors. Larkin most likely would be interested in such factors as the professional experience and certification of the internal auditors and their organizational status.

SUGGESTED REFERENCES

Auditing

AICPA, *Audit and Accounting Guide, Audit Sampling* (AICPA, 1992).

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MULTIPLE-CHOICE ITEMS—SELECTED QUESTIONS

Accounting and Reporting

I. Federal Taxation—Individuals

A. Inclusions in Gross Income

R97#1. Klein, a master's degree candidate at Briar University, was awarded a $12,000 scholarship from Briar in 1996. The scholarship was used to pay Klein's 1996 university tuition and fees. Also in 1996, Klein received $5,000 for teaching two courses at a nearby college. What amount is includible in Klein's 1996 gross income?

A. $0
B. $ 5,000
C. $12,000
D. $17,000

C. Deductions from Adjusted Gross Income

R97#2. Jimet, an unmarried taxpayer, qualified to itemize 1996 deductions. Jimet's 1996 adjusted gross income was $30,000 and he made a $2,000 cash donation directly to a needy family. In 1996, Jimet also donated stock, valued at $3,000, to his church. Jimet had purchased the stock four months earlier for $1,500. What was the maximum amount of the charitable contribution allowable as an itemized deduction on Jimet's 1996 income tax return?

A. $0
B. $1,500
C. $2,000
D. $5,000

R97#3. In 1996, Wood's residence had an adjusted basis of $150,000 and it was destroyed by a tornado. An appraiser valued the decline in market value at $175,000. Later that same year, Wood received $130,000 from his insurance company for the property loss and did not elect to deduct the casualty loss in an earlier year. Wood's 1996 adjusted gross income was $60,000 and he did not have any casualty gains.

What total amount can Wood deduct as a 1996 itemized deduction for the casualty loss, after the application of the threshold limitations?

A. $39,000
B. $38,900
C. $19,900
D. $13,900

R97#4. Deet, an unmarried taxpayer, qualified to itemize 1996 deductions. Deet's 1996 adjusted gross income was $40,000 and he made a $1,500 substantiated cash donation directly to a needy family. Deet also donated art, valued at $11,000, to a local art museum. Deet had purchased the art work two years earlier for $2,000. What was the maximum amount of the charitable contribution allowable as an itemized deduction on Deet's 1996 income tax return?

A. $12,500
B. $11,000
C. $ 3,500
D. $ 2,000

II. Federal Taxation—Corporations

A. Determination of Taxable Income or Loss

R97#5. How are a C corporation's net capital losses used?

A. Deducted from the corporation's ordinary income only to the extent of $3,000.
B. Carried back three years and forward five years.
C. Deductible in full from the corporation's ordinary income.
D. Carried forward 15 years.

H. Other

1. Distributions

R97#6. Elm Corp. is an accrual-basis calendar-year C corporation with 100,000 shares of voting common stock issued and outstanding as of December 28, 1996. On Friday, December 29, 1996, Hall surrendered 2,000 shares of Elm stock to Elm in exchange for $33,000 cash. Hall had no direct or indirect interest in Elm after the stock surrender. Additional information follows:

Hall's adjusted basis in 2,000 shares of Elm on December 29, 1996 ($8 per share)	$16,000
Elm's accumulated earnings and profits at January 1, 1996	25,000
Elm's 1996 net operating loss	(7,000)

What amount of income did Hall recognize from the stock surrender?

A. $33,000 dividend.
B. $25,000 dividend.
C. $18,000 capital gain.
D. $17,000 capital gain.

2. Incorporations, Reorganization, Liquidation, and Dissolution

R97#7. Mintee Corp., an accrual-basis calendar-year C corporation, had no corporate shareholders when it liquidated in 1996. In cancellation of all their Mintee stock, each Mintee shareholder received in 1996, a liquidating distribution of $2,000 cash and land with a tax basis of $5,000 and a fair market value of $10,500. Before the distribution, each shareholder's tax basis in Mintee stock was $6,500. What amount of gain should each Mintee shareholder recognize on the liquidating distribution?

A. $0
B. $ 500
C. $4,000
D. $6,000

III. Federal Taxation—Partnerships

G. Termination of Partnership

R97#8. Under which of the following circumstances is a partnership that is not an electing large partnership considered terminated for income tax purposes?

I. Fifty-five percent of the total interest in partnership capital and profits is sold within a 12-month period.
II. The partnership's business and financial operations are discontinued.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

IV. Federal Taxation—Estates and Trusts, Exempt Organizations, and Preparers' Responsibilities

A. Estates and Trusts

R97#9. Under the provisions of a decedent's will, the following cash disbursements were made by the estate's executor:

I. A charitable bequest to the American Red Cross.
II. Payment of the decedent's funeral expenses.

What deduction(s) is(are) allowable in determining the decedent's taxable estate?

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

B. Exempt Organizations

R97#10. Maple Avenue Assembly, a tax-exempt religious organization, operates an outreach program for the poor in its community. A candidate for the local city council has endorsed Maple's anti-poverty program. Which of the following activities is(are) consistent with Maple's tax-exempt status?

I. Endorsing the candidate to members.
II. Collecting contributions from members for the candidate.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

C. Preparers' Responsibilities

R97#11. Morgan, a sole practitioner CPA, prepares individual and corporate income tax returns. What documentation is Morgan required to retain concerning each return prepared?

A. An unrelated party compliance statement.
B. Taxpayer's name and identification number or a copy of the tax return.
C. Workpapers associated with the preparation of each tax return.
D. A power of attorney.

V. Accounting for Governmental and Not-for-Profit Organizations

A. Governmental Entities

R97#12. Receipts from a special tax levy to retire and pay interest on general obligation bonds should be recorded in which fund?

A. General.
B. Capital projects.
C. Debt service.
D. Special revenue.

R97#13. South City School District has a separately elected governing body that administers the public school system. The district's budget is subject to the approval of the city council. The district's financial activity should be reported in the City's financial statements by

A. Blending only.
B. Discrete presentation.
C. Inclusion as a footnote only.
D. Either blending or inclusion as a footnote.

R97#14. Marta City's school district is a legally separate entity, but two of its seven board members are also city council members and the district is financially dependent on the city. The school district should be reported as a

A. Blended unit.
B. Discrete presentation.
C. Note disclosure.
D. Primary government.

B. Nongovernmental Not-for-Profit Organizations

R97#15. Child Care Centers, Inc., a not-for-profit organization, receives revenue from various sources during the year to support its day-care centers. The following cash amounts were received during 1996:

— $2,000 restricted by the donor to be used for meals for the children.

— $1,500 received for subscriptions to a monthly child-care magazine with a fair market value to subscribers of $1,000.

— $10,000 to be used only upon completion of a new playroom that was 75% complete at December 31, 1996.

What amount should Child Care Centers record as contribution revenue in its 1996 Statement of Activities?

A. $ 2,000
B. $ 2,500
C. $10,000
D. $11,000

R97#16. A not-for-profit organization receives $150 from a donor. The donor receives two tickets to a theater show and an acknowledgment in the theater program. The tickets have a fair market value of $100. What amount is recorded as contribution revenue?

A. $0
B. $ 50
C. $100
D. $150

R97#17. Which of the following classifications is required for reporting of expenses by all not-for-profit organizations?

A. Natural classification in the statement of activities or notes to the financial statements.
B. Functional classification in the statement of activities or notes to the financial statements.
C. Functional classification in the statement of activities and natural classification in a matrix format in a separate statement.
D. Functional classification in the statement of activities and natural classification in the notes to the financial statements.

R97#18. The Jackson Foundation, a not-for-profit organization, received contributions in 1996 as follows:

- Unrestricted cash contributions of $500,000.
- Cash contibutions of $200,000 to be restricted to acquisition of property.

Jackson's statement of cash flows should include which of the following amounts?

	Operating activities	*Investing activities*	*Financing activities*
A.	$700,000	$0	$0
B.	$500,000	$200,000	$0
C.	$500,000	$0	$200,000
D.	$0	$500,000	$200,000

VI. Managerial Accounting

A. Cost Estimation, Cost Determination, and Cost Drivers

R97#19. To determine the best cost driver of warranty costs relating to glass breakage during shipments, Wymer Co. used simple linear regression analysis to study the relationship between warranty costs and each of the following variables: type of packaging, quantity shipped, type of carrier, and distance shipped. The analysis yielded the following statistics:

Independent Variable	*Coefficient of Determination*	*Standard Error of Regression*
Type of packaging	0.60	1,524
Quantity shipped	0.48	1,875
Type of carrier	0.45	2,149
Distance shipped	0.20	4,876

Based on these analyses, the best driver of warranty costs for glass breakage is

A. Type of packaging.
B. Quantity shipped.
C. Type of carrier.
D. Distance shipped.

B. Job Costing, Process Costing, and Activity Based Costing

R97#20. Mason Co. uses a job-order cost system and applies manufacturing overhead to jobs using a predetermined overhead rate based on direct-labor dollars. The rate for the current year is 200 percent of direct-labor dollars. This rate was calculated last December and will be used throughout the current year.

Mason had one job, No. 150, in process on August 1 with raw materials costs of $2,000 and direct-labor costs of $3,000. During August, raw materials and direct labor added to jobs were as follows:

	No. 150	*No. 151*	*No. 152*
Raw materials	$ —	$4,000	$1,000
Direct labor	1,500	5,000	2,500

Actual manufacturing overhead for the month of August was $20,000. During the month, Mason completed Job Nos. 150 and 151.

For August, manufacturing overhead was

A. Overapplied by $4,000.
B. Underapplied by $7,000.
C. Underapplied by $2,000.
D. Underapplied by $1,000.

R97#21. A basic assumption of activity-based costing (ABC) is that

A. All manufacturing costs vary directly with units of production.
B. Products or services require the performance of activities, and activities consume resources.
C. Only costs that respond to unit-level drivers are product costs.
D. Only variable costs are included in activity-cost pools.

D. Inventory Planning, Inventory Control, and Just-in-Time Purchasing

R97#22. In computing the reorder point for an item of inventory, which of the following is used?

I. Cost.
II. Usage per day.
III. Lead time.

A. I and II.
B. II and III.
C. I and III.
D. I, II, and III.

J. Capital Budgeting

R97#23. Oak Co. bought a machine which it will depreciate on the straight-line basis over an estimated useful life of seven years. The machine has no salvage value. It expects the machine to generate after-tax net cash inflows from operations of $110,000 in each of the seven years. Oak's minimum rate of return is 12%. Information on present value factors is as follows:

Present value of $1 at 12% at the end of seven periods	.0452
Present value of an ordinary annuity of $1 at 12% for seven periods	4.564

Assuming a positive net present value of $12,000, what was the cost of the machine?

A. $480,000
B. $490,040
C. $502,040
D. $514,040

MULTIPLE-CHOICE ITEMS—UNOFFICIAL ANSWERS

Accounting and Reporting

I. Federal Taxation—Individuals

A. Inclusions in Gross Income

R97#1 B

C. Deductions from Adjusted Gross Income

R97#2 B

R97#3 D

R97#4 B

II. Federal Taxation—Corporations

A. Determination of Taxable Income or Loss

R97#5 B

H. Other

1. Distributions

R97#6 D

2. Incorporations, Reorganization, Liquidation, and Dissolution

R97#7 D

III. Federal Taxation—Partnerships

G. Termination of Partnership

R97#8 C

IV. Federal Taxation—Estates and Trusts, Exempt Organizations, and Preparers' Responsibilities

A. Estates and Trusts

R97#9 C

B. Exempt Organizations

R97#10 D

C. Preparers' Responsibilities

R97#11 B

V. Accounting for Governmental and Not-for-Profit Organizations

A. Governmental Entities

R97#12 C

R97#13 B

R97#14 B

B. Nongovernmental Not-for-Profit Organizations

R97#15 B

R97#16 B

R97#17 B

R97#18 C

VI. Managerial Accounting

A. Cost Estimation, Cost Determination, and Cost Drivers

R97#19 A

B. Job Costing, Process Costing, and Activity Based Costing

R97#20 C

R97#21 B

D. Inventory Planning, Inventory Control, and Just-in-Time Purchasing

R97#22 B

J. Capital Budgeting

R97#23 B

III. Federal Taxation—Partnerships

A. Basis of Partner's Interest and Bases of Assets Contributed to the Partnership
and
B. Determination of Partner's Share of Income, Credits, and Deductions
and
C. Partnership and Partner Elections
and
D. Partner Dealing with Own Partnership
and
E. Treatment of Partnership Liabilities
and
F. Distribution of Partnership Assets

R97#3. Question Number 3 consists of 3 parts. Part A consists of 9 items, Part B consists of 10 items, and Part C consists of 1 item. Select the best answer for each item. Use a No. 2 pencil to blacken the appropriate ovals on the *Objective Answer Sheet* to indicate your answers. Answer all items. Your grade will be based on the total number of correct answers.

A. The Internal Revenue Service is auditing Oate's 1996 Form 1040—Individual Income Tax Return. During 1996, Oate, an unmarried custodial parent, had one dependent three-year-old child and worked in a CPA firm. For 1996, Oate, who had adjusted gross income of $40,000, qualified to itemize deductions and was subject to federal income tax liability.

Required:
For Items 1 through 9, select from the following list of tax treatments the appropriate tax treatment and blacken the corresponding oval on the *Objective Answer Sheet.* A tax treatment may be selected once, more than once, or not at all.

1. In 1996, Oate paid $900 toward continuing education courses and was not reimbursed by her employer.
2. For 1996, Oate had a $30,000 cash charitable contribution carryover from her 1995 cash donation to the American Red Cross. Oate made no additional charitable contributions in 1996.
3. During 1996, Oate had investment interest expense that did not exceed her net investment income.
4. Oate's 1996 lottery ticket losses were $450. She had no gambling winnings.
5. During 1996, Oate paid $2,500 in real property taxes on her vacation home, which she used exclusively for personal use.
6. In 1996, Oate paid a $500 premium for a homeowner's insurance policy on her principal residence.
7. For 1996, Oate paid $1,500 to an unrelated baby-sitter to care for her child while she worked.
8. In 1996, Oate paid $4,000 interest on the $60,000 acquisition mortgage of her principal residence. The mortgage is secured by Oate's home.
9. During 1996, Oate paid $3,600 real property taxes on residential rental property in which she actively participates. There was no personal use of the rental property.

Tax Treatments	
Ⓐ	Not deductible on Form 1040.
Ⓑ	Deductible in full on Schedule A—Itemized Deductions.
Ⓒ	Deductible in Schedule A—Itemized Deductions subject to a limitation of 50% of adjusted gross income.
Ⓓ	Deductible in Schedule A—Itemized Deductions as miscellaneous deduction subject to a threshold of 2% of adjusted gross income.
Ⓔ	Deductible in Schedule A—Itemized Deductions as miscellaneous deduction **not** subject to a threshold of 2% of adjusted gross income.
Ⓕ	Deductible on Schedule E—Supplemental Income and Loss.
Ⓖ	A credit is allowable.

B. Frank and Dale Cumack are married and filing a joint 1996 income tax return. During 1996, Frank, 65, was retired from government service and Dale, 55, was employed as a university instructor. In 1996, the Cumacks contributed all of the support to Dale's father, Jacques, an unmarried French citizen and French resident who had no gross income.

Required:
For Items 10 through 19, select the correct amount of income, loss, or adjustment to income that should be recognized on page 1 of the Cumacks' 1996 Form 1040—Individual Income Tax Return to arrive at the adjusted gross income for each separate transaction and blacken the corresponding oval on the *Objective Answer Sheet.* A response may be selected once, more than once, or not at all.

Any information contained in an item is unique to that item and is not to be incorporated in your calculations when answering other items.

Amounts			
Ⓐ	$0	Ⓗ	$ 9,000
Ⓑ	$ 1,000	Ⓘ	$ 10,000
Ⓒ	$ 2,000	Ⓙ	$ 25,000
Ⓓ	$ 2,250	Ⓚ	$ 30,000
Ⓔ	$ 3,000	Ⓛ	$125,000
Ⓕ	$ 4,000	Ⓜ	$150,000
Ⓖ	$ 5,000		

10. During 1996, Dale received a $30,000 cash gift from her aunt.

11. Dale contributed $2,000 to her Individual Retirement Account (IRA) on January 15, 1997. In 1996, she earned $60,000 as a university instructor. During 1996, the Cumacks were not active participants in an employer's qualified pension or annuity plan.

12. In 1996, the Cumacks received a $1,000 federal income tax refund.

13. During 1996, Frank, a 50% partner in Diske General Partnership, received a $4,000 guaranteed payment from Diske for services that he rendered to the partnership that year.

14. In 1996, Frank received $10,000 as beneficiary of his deceased brother's life insurance policy.

15. Dale's employer pays 100% of the cost of all employees' group term life insurance under a qualified plan. Policy cost is $5 per $1,000 of coverage. Dale's group term life insurance coverage equals $450,000.

16. In 1996, Frank won $5,000 at a casino and had $2,000 in gambling losses.

17. During 1996, the Cumacks received $1,000 interest income associated with a refund of their prior years' federal income tax.

18. In 1996, the Cumacks sold their first and only residence for $200,000. They purchased their home in 1985 for $50,000 and have lived there since then. There were no other capital gains, losses, or capital loss carryovers. The Cumacks do not intend to buy another residence and they have properly elected the lifetime exclusion.

19. In 1996, Zeno Corp. declared a stock dividend and Dale received one additional share of Zeno common stock for three shares of Zeno common stock that she held. The stock that Dale received had a fair market value of $9,000. There was no provision to receive cash instead of stock.

C. Frank and Dale Cumack are married and filing a joint 1996 income tax return. During 1996, Frank, 65, was retired from government service and Dale, 55, was employed as a university instructor. In 1996, the Cumacks contributed all of the support to Dale's father, Jacques, an unmarried French citizen and French resident who had no gross income.

Required:
For Item 20, determine whether the Cumacks overstated, understated, or correctly determined the number of both personal and dependency exemptions and blacken the corresponding oval on the *Objective Answer Sheet.*

Selections	
Ⓞ	Overstated the number of both personal and dependency exemptions.
Ⓤ	Understated the number of both personal and dependency exemptions.
Ⓒ	Correctly determined the number of both personal and dependency exemptions.

20. The Cumacks claimed 3 exemptions on their 1996 joint income tax return.

Accounting and Reporting

III. Federal Taxation—Partnerships

A. Basis of Partner's Interest and Bases of Assets Contributed to the Partnership

and

B. Determination of Partner's Share of Income, Credits, and Deductions

and

C. Partnership and Partner Elections

and

D. Partner Dealing with Own Partnership

and

E. Treatment of Partnership Liabilities

and

F. Distribution of Partnership Assets

R97#3.

QUESTION 3

A. Select one

1	A	B	C	●	E	F	G
2	A	B	●	D	E	F	G
3	A	●	C	D	E	F	G
4	●	B	C	D	E	F	G
5	A	●	C	D	E	F	G
6	●	B	C	D	E	F	G
7	A	B	C	D	E	F	●
8	A	●	C	D	E	F	G
9	A	B	C	D	E	●	G

B. Select one

10	●	B	C	D	E	F	G	H	I	J	K	L	M
11	A	B	●	D	E	F	G	H	I	J	K	L	M
12	●	B	C	D	E	F	G	H	I	J	K	L	M
13	A	B	C	D	E	●	G	H	I	J	K	L	M
14	●	B	C	D	E	F	G	H	I	J	K	L	M
15	A	B	●	D	E	F	G	H	I	J	K	L	M
16	A	B	C	D	E	F	●	H	I	J	K	L	M
17	A	●	C	D	E	F	G	H	I	J	K	L	M
18	A	B	C	D	E	F	G	H	I	●	K	L	M
19	●	B	C	D	E	F	G	H	I	J	K	L	M

C. Select one

20	●	U	C

SUGGESTED REFERENCES

Accounting & Reporting

Afterman and Jones, *Governmental Accounting and Auditing Disclosure Manual* (Warren, Gorham, and Lamont, 1992).

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Horngren, Foster, and Datar, *Cost Accounting: A Managerial Emphasis,* 8th ed. (Prentice-Hall, 1994).

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Morse, Davis, and Hartgraves, *Management Accounting* (Southwestern, 1996).

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Polimeni, Fabozzi, and Adelberg, *Cost Accounting: Concepts and Applications for Managerial Decision Making,* 3d ed. (McGraw-Hill, 1991).

Rayburn, *Cost Accounting: Using a Cost Management Approach,* 5th ed. (Irwin, 1993).

U.S. Master Tax Guide (Commerce Clearing House).

A standard tax service, the Internal Revenue Code, and Income Tax Regulations.

MULTIPLE-CHOICE ITEMS—SELECTED QUESTIONS

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

B. Financial Accounting Standards for Presentation and Disclosure in General Purpose Financial Statements

R97#7. During 1995, Beck Co. purchased equipment for cash of $47,000, and sold equipment with a $10,000 carrying value for a gain of $5,000. How should these transactions be reported in Beck's 1995 statement of cash flows?

A. Cash outflow of $32,000.
B. Cash outflow of $42,000.
C. Cash inflow of $5,000 and cash outflow of $47,000.
D. Cash inflow of $15,000 and cash outflow of $47,000.

II. Recognition, Measurement, Valuation, and Presentation of Typical Items in Financial Statements in Conformity with Generally Accepted Accounting Principles

D. Property, Plant, and Equipment

R97#8. During January 1995 Yana Co. incurred landscaping costs of $120,000 to improve leased property. The estimated useful life of the landscaping is fifteen years. The remaining term of the lease is eight years, with an option to renew for an additional four years. However, Yana has not reached a decision with regard to the renewal option. In Yana's December 31, 1995, balance sheet, what should be the net carrying amount of landscaping costs?

A. $0
B. $105,000
C. $110,000
D. $112,000

I. Notes and Bonds Payable

R97#9. The market price of a bond issued at a premium is equal to the present value of its principal amount

A. Only, at the stated interest rate.
B. And the present value of all future interest payments, at the stated interest rate.
C. Only, at the market (effective) interest rate.
D. And the present value of all future interest payments, at the market (effective) interest rate.

L. Revenue, Cost, and Expense Accounts

R97#10. Ichor Co. reported equipment with an original cost of $379,000 and $344,000, and accumulated depreciation of $153,000 and $128,000, respectively, in its comparative financial statements for the years ended December 31, 1995, and 1994. During 1995, Ichor purchased equipment costing $50,000, and sold equipment with a carrying value of $9,000. What amount should Ichor report as depreciation expense for 1995?

A. $19,000
B. $25,000
C. $31,000
D. $34,000

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

K. Income Taxes

R97#11. Hut Co. has temporary taxable differences that will reverse during the next year and add to taxable income. These differences relate to noncurrent assets. Deferred income taxes based on these temporary differences should be classified in Hut's balance sheet as a

A. Current asset.
B. Noncurrent asset.
C. Current liability.
D. Noncurrent liability.

MULTIPLE-CHOICE ITEMS—UNOFFICIAL ANSWERS

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

B. Financial Accounting Standards for Presentation and Disclosure in General Purpose Financial Statements

R97#7 D

II. Recognition, Measurement, Valuation, and Presentation of Typical Items in Financial Statements in Conformity with Generally Accepted Accounting Principles

D. Property, Plant, and Equipment

R97#8 B

I. Notes and Bonds Payable

R97#9 D

L. Revenue, Cost, and Expense Accounts

R97#10 C

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

K. Income Taxes

R97#11 D

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

A. Financial Accounting Concepts

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

A. Accounting Changes and Corrections

R97#2.

Question Number 2 consists of 4 items. Select the best answer for each item. Use a No. 2 pencil to blacken the appropriate ovals on the *Objective Answer Sheet* to indicate your answers. Answer all items. Your grade will be based on the total number of correct answers.

On January 2, 1996, Falk Co. hired a new controller. During the year, the controller, working closely with Falk's president and outside accountants, made changes in existing accounting policies, instituted new accounting policies, and corrected several errors dating from prior to 1996.

Falk's financial statements for the year ended December 31, 1996, will not be presented in comparative form with its 1995 financial statements.

Required:
Items 1 through 4 represent Falk's transactions.

List A represents possible classifications of these transactions as a change in accounting principle, a change in accounting estimate, correction of an error in previously presented financial statements, or neither an accounting change nor an error correction.

List B represents the general accounting treatment required for these transactions. These treatments are:

- Cumulative effect approach—Include the cumulative effect of the adjustment resulting from the accounting change or error correction in the 1996 financial statements.
- Retroactive restatement approach—Adjust 1996 beginning retained earnings if the error or change affects a period prior to 1996.
- Prospective approach—Report 1996 and future financial statements on the new basis, but do not adjust beginning retained earnings or include the cumulative effect of the change in the 1996 income statements.

For **Items 1 and 2**, select a classification for each transaction from List A and the general accounting treatment required to report the change from List B, and blacken the corresponding ovals on the *Objective Answer Sheet.*

1. Falk manufactures customized equipment to customer specifications on a contract basis. Falk changed its method of accounting for these long-term contracts from the completed-contract method to the percentage-of-completion method because Falk is now able to make reasonable estimates of future construction costs.
2. Based on improved collection procedures, Falk changed the percentage of credit sales used to determine the allowance for uncollectible accounts from 2% to 1%.

For **Items 3 and 4**, in addition to selecting a classification for each transaction from List A **and** the general accounting treatment required to report the change from List B, a third response is required. For these items, determine the amount, if any, of the cumulative change or prior period adjustment, ignoring income tax effects, and record the amount by blackening the corresponding ovals on the *Objective Answer Sheet.* To record a **zero** answer for an item, you must black-

List A (Select one)	*List B (Select one)*
Type of change	*General accounting treatment*
(A) Change in accounting principle.	(X) Cumulative effect approach.
(B) Change in accounting estimate.	(Y) Retroactive restatement approach.
(C) Correction of an error in previously presented financial statements.	(Z) Prospective approach.
(D) Neither an accounting change nor an error correction.	

en all the **zero ovals** for that particular item. If zeros precede your numerical answer, blacken the zeros in the ovals preceding your answer. **You cannot receive credit for your answers if you fail to blacken an oval in each column.** You may write the numbers in the boxes provided to facilitate blackening the ovals; however, the numbers written in the boxes will **not** be graded.

3. Effective January 1, 1996, Falk changed from average cost to FIFO to account for its inventory. Cost of goods sold under each method was as follows:

Year	*Average cost*	*FIFO*
Years prior to 1995	$71,000	$77,000
1995	79,000	82,000

4. In January 1995, Falk purchased a machine with a five-year life and no salvage value for $40,000. The machine was depreciated using the straight-line method. On December 30, 1996, Falk discovered that depreciation on the machine had been calculated using a 25% rate.

OTHER OBJECTIVE ANSWER FORMATS—UNOFFICIAL ANSWERS

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

A. Financial Accounting Concepts

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

A. Accounting Changes and Corrections

R97#2.

ANSWER 2

	Select one	Select one
1	● B C D	X ● Z
2	A ● C D	X Y ●
3	● B C D	● Y Z
4	A B ● D	X ● Z

3
9,000

4
2,000

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

A. Financial Accounting Concepts

and

B. Financial Accounting Standards for Presentation and Disclosure in General Purpose Financial Statements

II. Recognition, Measurement, Valuation, and Presentation of Typical Items in Financial Statements in Conformity with Generally Accepted Accounting Principles

K. Equity Accounts

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

G. Employee Benefits

R97#2. Field Co.'s stockholders' equity account balances at December 31, 1995, were as follows:

Common stock	$ 800,000
Additional paid-in capital	1,600,000
Retained earnings	1,845,000

The following 1996 transactions and other information relate to the stockholders' equity accounts:

- Field had 400,000 authorized shares of $5 par common stock, of which 160,000 shares were issued and outstanding.
- On March 5, 1996, Field acquired 5,000 shares of its common stock for $10 per share to hold as treasury stock. The shares were originally issued at $15 per share. Field uses the cost method to account for treasury stock. Treasury stock is permitted in Field's state of incorporation.
- On July 15, 1996, Field declared and distributed a property dividend of inventory. The inventory had a $75,000 carrying value and a $60,000 fair market value.
- On January 2, 1994, Field granted stock options to employees to purchase 20,000 shares of Field's common stock at $18 per share, which was the market price on that date. The options may be exercised within a three-year period beginning January 2, 1996. The measurement date is the same as the grant date. On October 1, 1996, employees exercised all 20,000 options when the market value of the stock was $25 per share. Field issued new shares to settle the transaction.
- Field's net income for 1996 was $240,000.
- Field intends to issue new stock options to key employees in 1997. Field's management is aware that Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation,* which was issued in 1995, discusses both the "intrinsic value" method and the "fair value" method of accounting for stock options. Field's management is unsure of the difference between the two methods.

Required:

A. Prepare the stockholders' equity section of Field's December 31, 1996, balance sheet. Support all computations.

B. In a brief memo to Field's management, explain how compensation cost is measured under both the "fair value" method and the "intrinsic value" method of accounting for stock options, and when the measured cost is recognized.

ESSAYS—UNOFFICIAL ANSWERS

Financial Accounting and Reporting

I. Concepts and Standards for Financial Statements

A. Financial Accounting Concepts

and

B. Financial Accounting Standards for Presentation and Disclosure in General Purpose Financial Statements

II. Recognition, Measurement, Valuation, and Presentation of Typical Items in Financial Statements in Conformity with Generally Accepted Accounting Principles

K. Equity Accounts

III. Recognition, Measurement, Valuation, and Presentation of Specific Types of Transactions and Events in Financial Statements in Conformity with Generally Accepted Accounting Principles

G. Employee Benefits

R97#2.

A.

Field Co.
STOCKHOLDERS' EQUITY SECTION OF BALANCE SHEET
December 31, 1996

Common stock, $5 par value, 400,000 shares authorized,		
180,000 shares issued, 175,000 shares outstanding		$ 900,000 [1]
Additional paid-in capital		1,860,000 [2]
Retained earnings:		
Beginning balance	$1,845,000	
Add: Net income	240,000	
Less: Property dividend distributed	(60,000)	2,025,000
		4,785,000
Less common stock in treasury, 5,000 shares at cost		(50,000)
Total stockholders' equity		$4,735,000

[1] Shares issued: 160,000 + 20,000 = 180,000 x $5 = $900,000

[2] Additional paid-in capital: 1,600,000 + (20,000 x ($18 – 5)) = 1,600,000 + 260,000

B. To: Management, Field Co.

Re: Accounting for Stock-Based Compensation

As you are aware, Statement of Financial Accounting Standards No. 123 discusses both the "intrinsic value" method and the "fair value" method of accounting for stock options. The purpose of this memo is to inform you of the difference between the two methods and of when the company should record compensation cost associated with 1997 stock option issuances.

Under the "fair value" method of accounting for stock options, compensation cost is measured at the grant date based on the value of the award. This value is computed using an option-pricing model. Under the "intrinsic value" method, compensation cost is the excess, if any, of the quoted market price of the stock at the grant date (or other measurement date) over the amount an employee must pay to acquire the stock.

Under both methods, compensation cost, if any, is recognized over the service period, which is usually the vesting period.

SUGGESTED REFERENCES

Financial Accounting & Reporting

AICPA, *Personal Financial Statements Guide* (AICPA, 1991).

AICPA, *Technical Practice Aids* (AICPA, 1993).

AICPA, *Guide for Prospective Financial Information* (AICPA, 1993).

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Content Specification Outlines

Auditing

The auditing section covers knowledge of generally accepted auditing standards and procedures and the skills needed to apply them in auditing and other attestation engagements. This section tests that knowledge and those skills, as appropriate, in the context of the four broad engagement tasks that follow.

Auditing content specification outline

I. Plan the engagement, evaluate the prospective client and engagement, decide whether to accept or continue the client and the engagement, and enter into an agreement with the client (40%)
   A. Determine nature and scope of engagement
      1. Generally accepted auditing standards
      2. Standards for accounting and review services
      3. Standards for attestation engagements
      4. Compliance auditing applicable to governmental entities and other recipients of governmental financial assistance
      5. Other assurance services
      6. Appropriateness of engagement to meet client's needs
   B. Assess engagement risk and the CPA firm's ability to perform the engagement
      1. Engagement responsibilities
      2. Staffing and supervision requirements
      3. Quality control considerations
      4. Management integrity
      5. Researching information sources for planning and performing the engagement
   C. Communicate with the predecessor accountant/auditor
   D. Decide whether to accept or continue the client and engagement
   E. Enter into an agreement with the client as to the terms of the engagement
   F. Obtain an understanding of the client's operations, business, and industry
   G. Perform analytical procedures
   H. Consider preliminary engagement materiality
   I. Assess inherent risk and risk of misstatements
      1. Errors
      2. Fraud
      3. Illegal acts by clients
   J. Consider internal control
      1. Obtain and document an understanding of internal control—automated and manual
      2. Assess control risk
      3. Consider limitations of internal control
      4. Consider the effects of information technology on internal control
      5. Consider the effects of service organizations on internal control
   K. Consider other planning matters
      1. Using the work of other independent auditors
      2. Using the work of a specialist
      3. Internal audit function
      4. Related parties and related party transactions
      5. Electronic evidence
   L. Identify financial statement assertions and formulate audit objectives
      1. Accounting estimates
      2. Routine financial statement balances, classes of transactions, and disclosures
      3. Unusual financial statement balances, classes of transactions, and disclosures
   M. Determine and prepare the work program defining the nature, timing, and extent of the auditor's procedures

II. Obtain and document information to form a basis for conclusions (35%)
   A. Perform planned procedures including planned applications of audit sampling
      1. Tests of controls
      2. Analytical procedures
      3. Confirmation of balances and/or transactions with third parties
      4. Physical examination of inventories and other assets
      5. Other tests of details
      6. Computer assisted audit techniques
      7. Substantive tests prior to the balance sheet date
      8. Tests of unusual year-end transactions
   B. Evaluate contingencies
   C. Obtain and evaluate lawyers' letters
   D. Review subsequent events
   E. Obtain representations from management
   F. Identify reportable conditions and other control deficiencies
   G. Identify matters for communication with audit committees

III. Review the engagement to provide reasonable assurance that objectives are achieved and evaluate information obtained to reach and to document engagement conclusions (5%)
   A. Perform analytical procedures
   B. Evaluate the sufficiency and competence of audit evidence and document engagement conclusions
      1. Consider substantial doubt about an entity's ability to continue as a going concern
      2. Evaluate whether financial statements are free of material misstatements

3. Consider other information in documents containing audited financial statements

C. Review the work performed to provide reasonable assurance that objectives are achieved

IV. Prepare communications to satisfy engagement objectives (20%)

A. Prepare reports
1. Reports on audited financial statements
2. Reports on reviewed and compiled financial statements
3. Reports required by *Government Auditing Standards*
4. Reports on compliance with laws and regulations
5. Reports on internal control
6. Reports on prospective financial information
7. Reports on agreed-upon procedures
8. Reports on other assurance services
9. Reports on the processing of transactions by service organizations
10. Reports on supplementary financial information
11. Other special reports
12. Reissuance of reports

B. Prepare letters and other required communications
1. Errors and fraud
2. Illegal acts
3. Special reports
4. Communication with audit committees
5. Other reporting considerations covered by statements on auditing standards and statements on standards for attestation engagements

C. Other matters
1. Subsequent discovery of facts existing at the date of the auditor's report
2. Consideration of omitted procedures after the report date

Suggested publications to study—auditing

- AICPA Statements on Auditing Standards
- AICPA Statements on Standards for Accounting and Review Services
- AICPA Statements on Quality Control Standards
- AICPA Statements on Standards for Attestation Engagements
- U.S. General Accounting Office *Government Auditing Standards*
- AICPA Audit and Accounting Guides:
  - — Audit Sampling
  - — Consideration of Internal Control in a Financial Statement Audit
- Textbooks and articles on auditing and other assurance services
- AICPA Auditing Procedure Studies
- AICPA Audit and Accounting Manual
- AICPA Top 10 Technologies and Their Impact on CPAs
- AICPA Risk Alerts
- SECPS Practice Alerts
- Single Audit Act, as amended
- Information on auditing and other assurance services on the AICPA Website

Sample questions for auditing are on the AICPA's Website at http://www.aicpa.org/exams.

Financial accounting & reporting

The financial accounting & reporting section tests candidates' knowledge of generally accepted accounting principles for business enterprises and the skills needed to apply them in a public accounting engagement. Content covered in this section includes financial accounting concepts and standards as well as their application in a public accounting engagement. Candidates will

- Obtain and document entity information for use in financial statement presentations
- Evaluate, analyze, and process entity information for reporting in financial statements
- Communicate entity information and conclusions
- Analyze information and identify data relevant to financial accounting and reporting
- Identify financial accounting and reporting methods and select those that are suitable
- Perform calculations and formulate conclusions
- Present results in writing in a financial statement format or other appropriate format

Financial accounting & reporting content specification outline

I. Concepts and standards for financial statements (20%)

A. Financial accounting concepts

B. Financial accounting standards for presentation and disclosure in general purpose financial statements
1. Consolidated and combined financial statements
2. Balance sheet
3. Statement(s) of income, comprehensive income, and changes in equity accounts
4. Statement of cash flows

5. Accounting policies and other notes to financial statements

C. Other presentations of financial data
1. Financial statements prepared in conformity with comprehensive bases of accounting other than generally accepted accounting principles
2. Personal financial statements
3. Prospective financial information

D. Financial statement analysis

II. Recognition, measurement, valuation, and presentation of typical items in financial statements in conformity with generally accepted accounting principles (40%)

A. Cash, cash equivalents, and marketable securities
B. Receivables
C. Inventories
D. Property, plant, and equipment
E. Investments
F. Intangibles and other assets
G. Payables and accruals
H. Deferred revenues
I. Notes and bonds payable
J. Other liabilities
K. Equity accounts
L. Revenue, cost, and expense accounts

III. Recognition, measurement, valuation, and presentation of specific types of transactions and events in financial statements in conformity with generally accepted accounting principles (40%)

A. Accounting changes and corrections of errors
B. Business combinations
C. Cash flow components—financing, investing, and operating
D. Contingent liabilities and commitments
E. Discontinued operations
F. Earnings per share
G. Employee benefits
H. Extraordinary items
I. Financial instruments
J. Foreign currency transactions and translation
K. Income taxes
L. Interest costs
M. Interim financial reporting
N. Leases
O. Nonmonetary transactions
P. Quasi-reorganizations, reorganizations, and changes in entity
Q. Related parties
R. Research and development costs
S. Segment reporting

Suggested publications to study—financial accounting & reporting

- Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board Opinions, and AICPA Accounting Research Bulletins
- FASB Technical Bulletins
- AICPA Statement on Auditing Standards No. 69, "The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles* in the Independent Auditor's Report," and Statement on Auditing Standards No. 62, "Special Reports"
- AICPA Personal Financial Statements Guide
- FASB Statements of Financial Accounting Concepts
- AICPA Statements of Position
- Books and articles on accounting

Sample questions for financial accounting & reporting are on the AICPA's Website at http://www.aicpa.org/exams.

Accounting & reporting—taxation, managerial, and governmental and not-for-profit organizations

The accounting & reporting—taxation, managerial, and governmental and not-for-profit organizations section tests candidates' knowledge of principles and procedures for federal taxation, managerial accounting, and accounting for governmental and not-for-profit organizations, and the skills needed to apply them in a public accounting engagement.

Federal taxation

This portion covers knowledge applicable to federal taxation and its application in practice. Candidates will

- Analyze information and identify data relevant for tax purposes
- Identify issues, elections, and alternative tax treatments
- Perform required calculations
- Formulate conclusions

Federal taxation content specification outline

I. Federal taxation—individuals (20%)

A. Inclusions in gross income
B. Exclusions and adjustments to arrive at adjusted gross income
C. Deductions from adjusted gross income
D. Filing status and exemptions
E. Tax accounting methods
F. Tax computations, credits, and penalties
G. Alternative minimum tax
H. Tax procedures

II. Federal taxation—corporations (20%)
   A. Determination of taxable income or loss
   B. Tax accounting methods
   C. S corporations
   D. Personal holding companies
   E. Consolidated returns
   F. Tax computations, credits, and penalties
   G. Alternative minimum tax
   H. Other
      1. Distributions
      2. Incorporation, reorganization, liquidation, and dissolution
      3. Tax procedures

III. Federal taxation—partnerships (10%)
   A. Basis of partner's interest and bases of assets contributed to the partnership
   B. Determination of partner's share of income, credits, and deductions
   C. Partnership and partner elections
   D. Partner dealing with own partnership
   E. Treatment of partnership liabilities
   F. Distribution of partnership assets
   G. Termination of partnership

IV. Federal taxation—estates and trusts, exempt organizations, and preparers' responsibilities (10%)
   A. Estates and trusts
      1. Income taxation
      2. Determination of beneficiary's share of taxable income
      3. Estate and gift taxation
   B. Exempt organizations
      1. Types of organizations
      2. Requirements for exemption
      3. Unrelated business income tax
   C. Preparers' responsibilities

Suggested publications to study—federal taxation

- Internal Revenue Code and Income Tax Regulations
- Internal Revenue Service Circular 230
- AICPA Statements on Responsibilities in Tax Practice
- Income tax textbooks

Governmental and not-for-profit organizations

This portion covers knowledge applicable to accounting for governmental and not-for-profit organizations and its application in practice. Candidates will

- Analyze and identify information relevant to governmental and not-for-profit accounting and reporting
- Identify alternative accounting and reporting policies and select those appropriate in specific situations
- Distinguish the relative weight of authority of differing sources of generally accepted accounting principles
- Perform procedures, formulate conclusions, and present results

Governmental and not-for-profit organizations content specification outline

V. Accounting for governmental and not-for-profit organizations (30%)
   A. Governmental entities
      1. Measurement focus and basis of accounting
      2. Objectives of financial reporting
      3. Uses of fund accounting
      4. Budgetary process
      5. Financial reporting entity
      6. Elements of financial statements
      7. Conceptual reporting issues
      8. Accounting and financial reporting for state and local governments
         a. Governmental-type funds and account groups
         b. Proprietary-type funds
         c. Fiduciary-type funds
      9. Accounting and financial reporting for governmental not-for-profit organizations (including hospitals, colleges and universities, voluntary health and welfare organizations and other governmental not-for-profit organizations)
   B. Nongovernmental not-for-profit organizations
      1. Objectives of financial reporting
      2. Elements of financial statements
      3. Formats of financial statements
      4. Accounting and financial reporting for nongovernmental not-for-profit organizations
         a. Revenues and contributions
         b. Restrictions on resources
         c. Expenses, including depreciation

Suggested publications to study—governmental and not-for-profit organizations

- Governmental Accounting Standards Board (GASB) Statements, Interpretations, and Technical Bulletins
- Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards and Interpretations, Accounting Principles Board Opinions, AICPA Accounting Research Bulletins, and FASB Technical Bulletins
- FASB Statement of Financial Accounting Concepts No. 4, "Objectives of Financial Reporting by Nonbusiness Organizations," and FASB Statement of Financial Concepts No. 6, "Elements of Financial Statements"

- AICPA Statement on Auditing Standards No. 69, "The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles* in the Independent Auditor's Report"
- AICPA Audit and Accounting Guides and Statements of Position relating to governmental and not-for-profit organizations
- Governmental and not-for-profit accounting textbooks and other accounting textbooks containing pertinent chapters

Managerial accounting

This portion covers knowledge applicable to managerial accounting and its application in accounting practice. Candidates will

- Analyze and interpret information as a basis for decision making
- Determine product and service costs
- Prepare and interpret information for planning and control

Managerial accounting content specification outline

VI. Managerial accounting (10%)
  A. Cost estimation, cost determination, and cost drivers
  B. Job costing, process costing, and activity based costing
  C. Standard costing and flexible budgeting
  D. Inventory planning, inventory control, and just-in-time purchasing
  E. Budgeting and responsibility accounting
  F. Variable and absorption costing
  G. Cost-volume-profit analysis
  H. Cost allocation and transfer pricing
  I. Joint and by-product costing
  J. Capital budgeting
  K. Special analyses for decision making
  L. Product and service pricing

Suggested publications to study—managerial accounting

- Managerial accounting textbooks and other accounting textbooks containing pertinent chapters
- Accounting periodicals

Sample questions for accounting & reporting are on the AICPA's Website at http://www.aicpa.org/exams.

Business law & professional responsibilities

The business law & professional responsibilities section tests candidates' knowledge of a CPA's professional responsibilities and of the legal implications of business transactions, particularly as they relate to accounting and auditing. Content covered in this section includes a CPA's professional responsibilities, business organizations, contracts, debtor-creditor relationships, government regulation of business, the Uniform Commercial Code, and property. Candidates will be required to

- Recognize relevant legal issues
- Recognize the legal implications of certain business situations
- Apply the underlying principles of law to accounting and auditing situations

This section deals with federal and widely adopted uniform laws. If there is no federal or uniform law on a topic, the questions are intended to test knowledge of the law of the majority of jurisdictions. Professional ethics questions are based on the AICPA Code of Professional Conduct because it is national in its application, whereas codes of other organizations and jurisdictions may be limited in their application.

Business law & professional responsibilities content specification outline

I. Professional and legal responsibilities (15%)
  A. Code of professional conduct
  B. Proficiency, independence, and due care
  C. Responsibilities in other professional services
  D. Disciplinary systems imposed by the profession and state regulatory bodies
  E. Common law liability to clients and third parties
  F. Federal statutory liability
  G. Privileged communications and confidentiality
  H. Responsibilities of CPAs in business and industry, and in the public sector

II. Business organizations (20%)
  A. Agency
    1. Formation and termination
    2. Duties of agents and principals
    3. Liabilities and authority of agents and principals
  B. Partnership, joint ventures, and other unincorporated associations
    1. Formation, operation, and termination
    2. Liabilities and authority of partners and owners
  C. Corporations
    1. Formation and operation
    2. Stockholders, directors, and officers
    3. Financial structure, capital, and distributions
    4. Reorganization and dissolution

   D. Estates and trusts
      1. Formation, operation, and termination
      2. Allocation between principal and income
      3. Fiduciary responsibilities
      4. Distributions

III. Contracts (10%)
   A. Formation
   B. Performance
   C. Third party assignments
   D. Discharge, breach, and remedies

IV. Debtor-creditor relationships (10%)
   A. Rights, duties, and liabilities of debtors and creditors
   B. Rights, duties, and liabilities of guarantors
   C. Bankruptcy

V. Government regulation of business (15%)
   A. Federal securities acts
   B. Employment regulation
   C. Environmental regulation

VI. Uniform commercial code (20%)
   A. Negotiable instruments
   B. Sales
   C. Secured transactions
   D. Documents of title

VII. Property (10%)
   A. Real property including insurance
   B. Personal property including bailments and computer technology rights

Suggested publications to study—
business law & professional responsibilities

- AICPA *Code of Professional Conduct*
- AICPA Statements on Auditing Standards dealing explicitly with proficiency, independence, and due care
- AICPA Statement on Standards for Consulting Services
- AICPA Statements on Responsibilities in Personal Financial Planning Practice
- Books covering business law, auditing, and accounting

Sample questions for business law & professional responsibilities are on the AICPA's Website at http://www.aicpa.org/exams.

SUMMARY OF COVERAGE

May 1996 through November 1997 Uniform CPA Examinations

The following summary of coverage provides an analysis of the Content Specification Outline coverage for the May 1996 through November 1997 Uniform CPA Examinations. This summary is intended only as a study aid and should not be used to predict the content of future Examinations.

How to interpret this chart

The percentages in bold indicate the percentage points allocated to each type of question on these Examinations. For example, on the November 1997 Business Law & Professional Responsibilities section (LPR), 60 percent of the examination points were allocated to multiple-choice questions, 20 percent of the points were allocated to other objective answer format (OOAF), and 20 percent of the points were allocated to essays.

We have also provided the actual number of multiple-choice questions asked for each part and area of the Content Specification Outlines, e.g., for the November 1997 Examination, under the Professional and Legal Responsibilities part of LPR, there were 5 multiple-choice questions asked; of those 5, 1 dealt with the Code of Professional Conduct area. In addition, we have indicated the percentage of OOAF and essay questions asked for each part of each section. For example, none of the OOAFs tested the Professional and Legal Responsibilities part of LPR for the November 1997 Examination, but 10% of the essays assessed that part.

Business Law & Professional Responsibilities	Multiple-Choice				OOAFS				Essays			
	N97	M97	N96	M96	N97	M97	N96	M96	N97	M97	N96	M96
	60 (60%)	60 (60%)	60 (60%)	60 (60%)	20%	20%	20%	20%	20%	20%	20%	20%
I. Professional and Legal Responsibilities	5	15	5	15	0%	0%	0%	0%	10%	0%	10%	0%
A. Code of Professional Conduct	1	3	0	2								
B. Proficiency, Independence, and Due Care	1	3	0	2								
C. Responsibilities in Other Professional Services	1	2	0	2								
D. Disciplinary Systems Imposed by the Profession and State Regulatory Bodies	1	1	0	1								
E. Common Law Liability to Clients and Third Parties	1	3	0	3								
F. Federal Statutory Liability	0	3	3	4								
G. Privileged Communications and Confidentiality	0	0	2	1								
H. Responsibilities of CPAs in Business and Industry, and in the Public Sector	0	0	0	0								
II. Business Organizations	10	20	10	10	10%	0%	10%	10%	0%	0%	0%	0%
A. Agency	5	5	0	5			5%					
B. Partnership, Joint Ventures, and Other Unincorporated Associations	0	5	5	0				5%				
C. Corporations	0	5	5	0				5%				
D. Estates and Trusts	5	5	0	5			5%					
III. Contracts	10	0	0	10	0%	0%	0%	0%	0%	10%	10%	0%
A. Formation	3	0	0	2								
B. Performance	2	0	0	3								
C. Third Party Assignments	3	0	0	2								
D. Discharge, Breach, and Remedies	2	0	0	3								

Business Law & Professional Responsibilities	Multiple-Choice				OOAFS				Essays			
	N97	M97	N96	M96	N97	M97	N96	M96	N97	M97	N96	M96
	60 (60%)	60 (60%)	60 (60%)	60 (60%)	20%	20%	20%	20%	20%	20%	20%	20%
IV. Debtor-Creditor Relationships	10	0	10	0	0%	10%	0%	0%	0%	0%	0%	10%
A. Rights, Duties, and Liabilities, of Debtors and Creditors	2	0	2	0								
B. Rights, Duties, and Liabilities, of Guarantors	2	0	2	0		5%						
C. Bankruptcy	6	0	6	0		5%						10%
V. Government Regulation of Business	5	15	15	10	0%	0%	0%	5%	10%	0%	0%	0%
A. Federal Securities Acts	0	5	7	7					10%			
B .Employment Regulation	3	5	5	0				5%				
C. Environmental Regulation	2	5	3	3								
VI. Uniform Commercial Code	15	10	10	10	5%	10%	10%	0%	0%	0%	0%	10%
A. Negotiable Instruments	0	7	2	4	5%		5%					
B. Sales	5	0	5	0		5%						10%
C. Secured Transactions	7	0	1	4		5%	5%					
D. Documents of Title	3	3	2	2								
VII. Property	5	0	10	5	5%	0%	0%	5%	0%	10%	0%	0%
A. Real Property Including Insurance	4	0	7	2	5%			5%		10%		
B. Personal Property Including Bailments and Computer Technology Rights	1	0	3	3								

Auditing	Multiple-Choice				OOAFS				Essays			
	N97	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**
	75 (50%)	**75 (50%)**	**75 (50%)**	**75 (50%)**	**30%**	**30%**	**30%**	**30%**	**20%**	**20%**	**20%**	**20%**
I. Plan the Engagement, Evaluate the Prospective Client and Engagement, Decide Whether to Accept or Continue the Client and the Engagement, and Enter into an Agreement with the Client	23	30	30	21	5%	20%	20%	15%	20%	0%	0%	11%
A. Determine Nature and Scope of Engagement	3	3	3	4					1%			
B. Assess Engagement Risk and the CPA Firm's Ability to Perform the Engagement	1	4	2	4			10%		1%			
C. Communicate with the Predecessor Accountant/auditor	0	1	1	1	2%				1%			
D. Decide Whether to Accept or Continue the Client and Engagement	0	1	2	1					5%			
E. Enter into an Agreement with the Client as to the Terms of the Engagement	0	1	1	0	2%				5%			
F. Obtain an Understanding of the Client's Operations, Business, and Industry	0	1	0	0			5%		1%			
G. Perform Analytical Procedures	2	2	2	0				5%				
H. Consider Preliminary Engagement Materiality	1	2	2	1					1%			
I. Assess Inherent Risk and Risk of Misstatements	3	1	3	1		10%			1%			
J. Consider Internal Control	8	8	8	7		10%	5%		2%			11%
K. Consider Other Planning Matters	1	3	3	2					1%			
L. Identify Financial Statement Assertions and Formulate Audit Objectives	3	2	2	0				5%				
M. Determine and Prepare the Work Program Defining the Nature, Timing, and Extent of the Auditor's Procedures	1	1	1	0	1%			5%	1%			

Auditing	Multiple-Choice				OOAFS				Essays			
	N97	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**
	75 (50%)	**75 (50%)**	**75 (50%)**	**75 (50%)**	**30%**	**30%**	**30%**	**30%**	**20%**	**20%**	**20%**	**20%**
II. Obtain and Document Information to Form a Basis for Conclusions	37	23	23	32	10%	0%	0%	5%	0%	20%	20%	9%
A. Perform Planned Procedures Including Planned Applications of Audit Sampling	32	15	17	23	5%					20%	10%	9%
B. Evaluation Contingencies	0	2	1	2	2%							
C. Obtain and Evaluate Lawyers' Letters	0	1	1	1								
D. Review Subsequent Events	2	2	2	2								
E. Obtain Representations from Management	1	1	1	2	2%							
F. Identify Reportable Conditions and Other Control Deficiencies	2	1	0	1							10%	
G. Identify Matters for Communication with Audit Committees	0	1	1	1	1%							
III. Review the Engagement to Provide Reasonable Assurance That Objectives Are Achieved and Evaluate Information Obtained to Reach and to Document Engagement Conclusions	0	7	7	7	5%	0%	0%	0%	0%	0%	0%	0%
A. Perform Analytical Procedures	0	3	3	2								
B. Evaluate the Sufficiency and Competence of Audit Evidence and Document Engagement Conclusions	0	2	2	4								
C. Review the Work Performed to Provide Reasonable Assurance that Objectives Are Achieved	0	2	2	1								
IV. Prepare Communications to Satisfy Engagement Objectives	15	15	15	15	10%	10%	10%	10%	0%	0%	0%	0%
A. Prepare Reports	12	10	13	12	3%	5%	10%	10%				
B. Prepare Letters and Other Required Communications	1	4	1	3	7%	5%						
C. Other Matters	2	1	1	0								

Accounting & Reporting—Taxation, Managerial, and Governmental and Not-for-Profit Organizations	Multiple-Choice				OOAFS				Essays			
	N97	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**				
	75 (60%)	**75 (60%)**	**75 (60%)**	**75 (60%)**	**40%**	**40%**	**40%**	**40%**				
I. Federal Taxation—Individuals	7	25	0	25	15%	0%	20%	0%				
A. Inclusions in Gross Income	1	9	0	9								
B. Exclusions and Adjustments to Arrive at Adjusted Gross Income	0	2	0	2								
C. Deductions from Adjusted Gross Income	2	6	0	6								
D. Filing Status and Exemptions	1	0	0	0								
E. Tax Accounting Methods	1	0	0	0								
F. Tax Computations, Credits, and Penalties	2	3	0	3								
G. Alternative Minimum Tax	0	3	0	3								
H. Tax Procedures	0	2	0	2								
II. Federal Taxation—Corporations	25	0	25	7	0%	20%	0%	15%				
A. Determination of Taxable Income or Loss	10	0	8	1		5%						
B. Tax Accounting Methods	1	0	1	0								
C. S Corporations	4	0	3	2		10%						
D. Personal Holding Companies	0	0	0	0								
E. Consolidated Returns	2	0	1	0								
F. Tax Computations, Credits, and Penalties	2	0	3	0								
G. Alternative Minimum Tax	0	0	2	0		5%						
H. Other	6	0	7	4								
III. Federal Taxation—Partnerships	0	12	12	12	10%	0%	0%	0%				
A. Basis of Partner's Interest and Bases of Assets Contributed to the Partnership	0	3	3	3								
B. Determination of Partner's Share of Income, Credits, and Deductions	0	3	2	3								

Accounting & Reporting—Taxation, Managerial, and Governmental and Not-for-Profit Organizations	**Multiple-Choice**				**OOAFS**				**Essays**			
	N97	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**				
	75 (60%)	**75** (60%)	**75** (60%)	**75** (60%)	**40%**	**40%**	**40%**	**40%**				
C. Partnership and Partner Elections	0	0	1	1								
D. Partner Dealing with Own Partnership	0	1	0	1								
E. Treatment of Partnership Liabilities	0	1	2	0								
F. Distribution of Partnership Assets	0	3	2	3								
G. Termination of Partnership	0	1	2	1								
IV. Federal Taxation—Estates and Trusts, Exempt Organizations, and Preparers' Responsibilities	12	7	7	0	0%	5%	5%	10%				
A. Estates and Trusts	6	3	5	0		5%						
B. Exempt Organizations	3	0	1	0								
C. Preparers' Responsibilities	3	4	1	0			5%					
V. Accounting for Governmental and Not-for-Profit Organizations	19	19	19	19	15%	15%	10%	15%				
A. Governmental Entities	10	10	9	13								
B. Nongovernmental Not-for-Profit Organizations	9	9	10	6								
VI. Managerial Accounting	12	12	6	12	0%	0%	5%	0%				
A. Cost Estimation, Cost Determination, and Cost Drivers	1	2	1	1								
B. Job Costing, Process Costing, and Activity Based Costing	2	2	0	1								
C. Standard Costing and Flexible Budgeting	0	0	0	1								
D. Inventory Planning, Inventory Control, and Just-in-Time Purchasing	1	1	1	1								
E. Budgeting and Responsibility Accounting	2	2	0	1								
F. Variable and Absorption Costing	1	1	0	1								

Accounting & Reporting—Taxation, Managerial, and Governmental and Not-for-Profit Organizations	Multiple-Choice				OOAFS				Essays			
	N97	M97	N96	M96	N97	M97	N96	M96				
	75 (60%)	75 (60%)	75 (60%)	75 (60%)	40%	40%	40%	40%				
G. Cost-Volume-Profit Analysis	1	1	0	1								
H. Cost Allocation and Transfer Pricing	1	1	1	1								
I. Joint and By-Product Costing	0	0	1	1								
J. Capital Budgeting	1	1	1	1								
K. Special Analyses for Decision Making	1	1	0	1								
L. Product and Service Pricing	1	0	1	1								

Financial Accounting & Reporting	**Multiple-Choice**				**OOAFs**				**Essays**			
	N97	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**	**N97**	**M97**	**N96**	**M96**
	60 (60%)	**60 (60%)**	**60 (60%)**	**60 (60%)**	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**	**20%**
III. Recognition, Measurement, Valuation, and Presentation of Typical Items in Financial Statements in Conformity with Generally Accepted Accounting Principles	22	32	34	23	19%	15%	5%	0%	3%	0%	3%	17%
A. Accounting Changes and Corrections of Errors	0	2	0	0	4%						1%	6%
B. Business Combinations	1	3	0	2			5%					
C. Cash Flow Components—Financing, Investing, and Operating	3	0	2	2		5%						
D. Contingent Liabilities and Commitments	1	2	2	0								
E. Discontinued Operations	2	2	2	0								
F. Earnings Per Share	0	2	1	1	2%							
G. Employee Benefits	1	4	6	2		5%			3%			9%
H. Extraordinary Items	3	3	2	2							2%	
I. Financial Instruments	1	0	3	2								
J. Foreign Currency Transactions and Translation	1	2	1	1								
K. Income Taxes	2	0	4	2		5%						2%
L. Interest Costs	0	2	2	1								
M. Interim Financial Reporting	0	2	1	2	3%							
N. Leases	0	2	2	1	10%							
O. Nonmonetary Transactions	2	2	2	2								
P. Quasi-reorganizations, Reorganizations, and Changes in Entity	1	0	1	0								
Q. Related Parties	2	2	1	2								
R. Research and Development Costs	2	1	1	1								
S. Segment Reporting	0	1	1	0								

BOARD OF EXAMINERS' 1997 UNIFORM CPA EXAMINATION ANNUAL REPORT

The 1997 Annual Report includes the results of the 1997 Uniform CPA Examinations, such as the number of candidates, passing percentages, writing skills performance, and costs to develop the Examination. The Report also discusses the year's notable events and future projects, such as computerization of the Examination.

	Member	Nonmember
No. 875032VV		
(Available Spring 1998)	*$5.75*	*$6.50*
Educational discount price	*$4.02*	*$4.55*

UNIFORM CPA EXAMINATION PREPARATION GUIDE

The Preparation Guide discusses question writing in the larger context of question development and licensing, and contains guidelines and illustrations for writing good Uniform CPA Examination questions.

	Member	Nonmember
No. 875010VV	*$8.00*	*$9.00*
Educational discount price	*$5.60*	*$6.30*

DIGEST OF STATE ACCOUNTANCY LAWS AND REGULATIONS

The Digest, published jointly by the National Association of State Boards of Accountancy and the AICPA, summarizes each jurisdiction's requirements to earn and retain the CPA designation.

	Member	Nonmember
No. 064040GA	*$27.00*	*$29.50*
Educational discount price	*$18.90*	*$20.65*

INFORMATION FOR INTERNATIONAL UNIFORM CPA QUALIFICATION EXAMINATION CANDIDATES, 1st Edition

This booklet is designed to inform Australian and Canadian Chartered Accountants about the International Uniform Certified Public Accountant Qualification Examination (IQEX). Following a statement on the purpose and general objectives of IQEX, the booklet discusses the content and format of the examination.

	Member	Nonmember
No. 874203VV	*$5.25*	*$6.75*
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